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Subject: State Education Budget Information

Today Governor Arnold Schwarzenegger presented his budget for 2004-05. The budget proposal reflects a reasonable compromise made under extremely difficult fiscal conditions. I am cautiously optimistic that if the Legislature follows this blueprint it would enable your schools to maintain improvements made in student achievement over the past several years.

As you know, the Governor's January budget proposal is just the opening salvo in the months long process of adopting a state budget. I will be fighting hard to avoid any further erosion of Proposition 98 funding for California's students. I will keep you informed as budget negotiations progress. Thank you as always for all of your hard work on behalf of California's students.

The budget includes a number of policy and spending proposals for 2004-05. This email provides a preliminary overview of the Governor's budget proposals for K-12 education. We will provide a more detailed overview in a few days. Other budget-related documents are available through the California Department of Education's (CDE) web site. Official state budget documents are available through the Department of Finance's web site: <http://www.dof.ca.gov>.

Some of the major proposals affecting Proposition 98 include:

- The budget proposes to "rebase" Proposition 98 at a level \$2 billion less than would otherwise be required for 2004-05. The administration projects that the maintenance factor increase resulting from rebasing the guarantee will be gradually repaid over the next four years.
- The budget proposes to establish the following priorities for use of maintenance factor repayment funding: (1) restoration of revenue limit deficits from 2002-03, (2) full funding of mandated costs, and (3) revenue limit augmentations (75 percent) and other priorities (25 percent).
- The budget proposes to retire \$1.2 billion in prior years' Proposition 98 obligations using a series of statutory appropriations beginning in 2006-07. Funds appropriated for settle-up are proposed to be designated for one-time expenses such as instructional materials, training, and deferred maintenance.

In other proposals, the budget shifts \$2 billion from 22 specified categorical programs to the revenue limits of the districts and county offices currently receiving those categorical funds. This funding change would be conditioned on increased accountability for academic and fiscal performance. In addition, most of the funding for charter school categorical block grants is proposed to be folded into general-purpose funding for charter schools.

As a result of expiration of one-time funding and other factors, approximately \$1.7 billion in new state and local funds are expected to be available in 2004-05 for K-12 programs. Major program increases include:

- \$406 million for statutory growth (\$280 million for revenue limits, \$37 million for special education, and \$89 million for various categorical programs).
- \$242 million to fund the increases in the PERS school employer contribution rate (\$106 million) and local education agency Unemployment Insurance rates (\$136 million).
- \$750 million for a 1.84 percent statutory cost-of-living adjustment (\$555 million for revenue limits, \$70 million for special education, and \$115 million for various categorical programs).
- \$110 million for school district revenue limit equalization to address the disparity in base funding levels.
- \$173.3 million for the State Deferred Maintenance Program to fully fund the statutory one-half of one percent State match.
- \$188 million for purchase of standards-aligned instructional materials related to adoptions for mathematics, English language arts, history-social science, and sciences.
- \$21 million to county offices of education to maintain high-speed internet connectivity and network infrastructure.

Other proposals include:

- Changes in the accountability system to provide district-level academic performance targets in line with the federal No Child Left Behind Act.
- Changes in funding for California's child care programs to reflect proposed changes in eligibility, fees, and subsidies for a savings of \$164.8 million.
- Elimination of norm-referenced testing in the STAR program for all grades except grades 3 and 8.

Next Steps in the Process

Legislative hearings on the budget traditionally begin in March. In May, the Governor's Department of Finance will issue its traditional "May Revision" of population, revenue, and expenditure projections, and growth and COLA estimates are subject to change at that time. The budget bills, having been amended in each house, will be reconciled by a joint conference committee and should be passed to the Governor in late June. Upon receiving the final Budget Bill, the Governor may then exercise his line-item veto before signing the Budget Act of 2004.